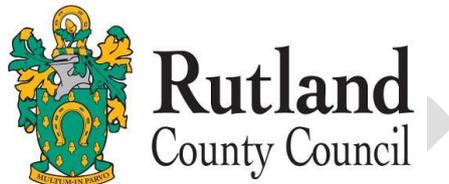


# APPENDIX C

## INTERNAL AUDIT REPORT



### RISK MANAGEMENT 2021/22

<b>Issue date:</b>	6 <sup>th</sup> October 2021	<b>Issued to:</b>	Sav Della Roca – Strategic Director of Resources
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## RISK MANAGEMENT 2021/22

### EXECUTIVE SUMMARY

#### 1. Introduction and overall opinion

The Council's risk management policy and framework provides a structured and coherent approach to risk management. The policy had been subject to Member review on 30<sup>th</sup> October 2018, with a further review due to take place during this financial year. Roles and responsibilities are clearly defined and risk management training sessions had been held for both officers and Members on 4<sup>th</sup> February 2020.

The Council's strategic risk register records the key risks that have been identified as posing the greatest corporate threats and how these are actively managed. The Council's policy indicates that risk registers should also be maintained at a directorate level; and benchmarking has confirmed that directorate level registers are maintained by the majority (80%) of local authorities within the sample reviewed. It is, however, noted that in all cases where multiple layers of risk registers are maintained, the respective councils have an in-house resource to facilitate this. Each of these councils have an officer with responsibility for risk management facilitation within their wider job role and this individual co-ordinates the maintenance of the relevant registers. At Rutland County Council, there is no dedicated lead officer in relation to risk registers - with work on all current registers being undertaken by members of the Strategic Management Team (SMT). It is noted that directorate risk registers are not currently maintained for the Place or Adults directorates with resource pressures cited as the reason for this.

Within the sample of councils, one council only maintained a single corporate risk register and, consistent with Rutland County Council, did not have a dedicated in-house resource. It has been acknowledged by both authorities that coverage across directorate and/or service level registers requires investment of additional resource. Recommended good practice in risk management indicates that directorate/service led registers should capture the service specific risks and highlight those which may need to be escalated to the strategic risk register due to emerging threat or impact extending to wider services. Elsewhere it has been found that the forming of a risk management group, with representatives from services around the council can assist in identifying such risks in the absence of documented directorate registers.

All relevant reports which had been presented to Cabinet over the last 12 months included sufficient information to provide assurance that the full impact of the decision-making process had been, and would be clearly understood by all parties. In addition, the strategic risk register had been presented to Members accordingly to provide assurance on the effectiveness of the risk management framework within the Council.

The Auditor's assurance opinion is summarised in the table below:

Internal Audit Assurance Opinion					
Control environment		Satisfactory Assurance <span style="color: yellow;">●</span>			
Compliance		Good Assurance <span style="color: green;">●</span>			
Organisational impact		Minor <span style="color: green;">●</span>			
Risk	Design	Compliance	Recommendations		
			H	M	L
Risk 1 – A lack of accountability and ownership of risk management within the Council.	Good Assurance	Good Assurance	0	0	0
Risk 2 – Risks facing the Council are not assessed or effectively managed and controlled.	Satisfactory Assurance	Good Assurance	0	1	0
Risk 3 – Lack of / no assurance that risk management is effective.	Satisfactory Assurance	Good Assurance	0	0	0
<b>Total Number of Recommendations</b>			<b>0</b>	<b>1</b>	<b>0</b>

## 2. Summary of findings

### **Risk 1 – A lack of accountability and ownership of risk management within the Council.**

The Council's risk management policy and framework clearly communicates the process by which risks are assessed (identified, analysed and evaluated), managed and controlled. Risk appetite can be defined as the amount and type of risk that an organisation is willing to take in order to meet their strategic objectives. The Council's variable risk appetite is clearly defined within the policy. It is understood that a low risk appetite is applied in relation to safeguarding, and the welfare of staff / the public, whereas a higher risk appetite is applied in relation to other duties, whilst considering the potential gains, stakeholder expectations, available resources and the Council's capacity to deliver.

The policy had been approved by Cabinet on 19<sup>th</sup> July 2016, after which, it had been subject to further review by the Audit and Risk Committee on 30<sup>th</sup> October 2018. Whilst a number of minor suggestions had been noted within the relevant Committee meeting minutes, no areas of concern or issues had been raised. With no statutory requirement to update the policy, a further review which had been due to take place on 1<sup>st</sup> April 2019 had been deferred. It is understood that a policy review is due to take place during this financial year (early 2022).

It is noted that whilst a copy of the policy is held within Cabinet and Committee papers on the Council's website, it is not currently available to officers via the intranet or shared drive. It is understood that a copy has been shared as part of some training and presentation events.

Roles and responsibilities in relation to risk management are clearly defined within the Council's Constitution (Scheme of Delegation and Financial Procedure Rules) and the risk management policy and framework. It is noted that the Deputy Leader is detailed as the Cabinet Member with specific responsibility for promoting awareness and understanding of risk management within the policy and framework, rather than the Portfolio Holder for Resources, as per the Cabinet minutes dated 19<sup>th</sup> July 2016. This would benefit from clarification as part of the next policy review.

Internal Audit review of the job descriptions which are currently held on file in relation to the Council's Strategic Management Team (SMT) confirmed that risk management responsibilities are detailed accordingly in the majority of cases.

Risk management training sessions had been held for a number of officers and the relevant Members on 4<sup>th</sup> February 2020. Internal Audit review of the training slides for both officers and Members confirmed that the sessions held had been consistent with best practice. It is understood that Zurich will be repeating the risk management training sessions for the relevant officers and Members going forward, a date for which is yet to be agreed at the time of reporting.

Based upon these findings, the assurance rating for the controls in respect of this risk is ***Good Assurance***.

### **Risk 2 – Risks facing the Council are not assessed or effectively managed or controlled.**

Internal Audit review confirmed that a strategic risk register, two directorate risk registers (Children's Services and Resources), a fraud risk register and numerous project risk logs currently exist within the Council. It is understood that a directorate risk register in relation to Adult Services has not been progressed, with resource pressures further challenged during the coronavirus (COVID-19) pandemic being cited as a need to prioritise other areas of service delivery over the last 18 months. A directorate risk register in relation to the Place directorate was located during the course of the audit but, again, resourcing pressures within the service had resulted in focus on other priorities and this had not been subject to recent review. The Director has stated that it is intended that quarterly reviews will be reinstated.

An exercise has been undertaken to compare and contrast the Council's risk register framework against those of a sample of four local authorities (LAs) within the shared Internal Audit service.

Of the councils in the sample, 80% maintain directorate and/or service level risk registers. It was noted that RCC was the only council in the sample whose strategy required directorate level registers but had no corporate resource allocated to supporting this process. All of the other councils with this level of coverage (i.e. directorate and/or service level register) have an officer with responsibility for leading on risk management activity. This tends to be a responsibility within the wider remit of an officer of middle management level - in a role such as 'Governance & Risk Manager' or 'Corporate Services Manager'. RCC does not have a resource with responsibility for risk management, with such responsibilities currently being undertaken by members of SMT. It is also noted that none of the councils with directorate risk registers make these publicly available nor present these to their relevant committees, these are maintained as internal documents and the degree to which these are subject to update and the level of detail within the entries is variable.

Quantifying the officer time taken to facilitate risk management at the various authorities can only be based on subjective estimates; but an indication of the estimated time spent on risk management at each of the authorities is set out in Table 1. In an example where the lead officer is actively involved in supporting maintenance of the corporate, business and operational level risk registers, it was estimated that the lead officer spent approximately 42 days a year on this and wider officer commitments would be approximately 36 days per year. In contrast, another authority with directorate risk registers indicated that management spent approximately 24 days per year on maintaining these and the central risk lead spent around 10 days facilitating the electronic risk management system.

There is one council (LA5) in the sample who only maintains a corporate level risk register and has made the conscious decision to not invest resource in lower levels of register coverage. This authority is a small district, with a potentially less complicated risk profile than RCC, but it is recognised that any extension of the current register coverage would require resourcing and the benefits are not considered to exceed the costs associated with this. In place of directorate registers, there is a risk management group with a small number of representatives from key service areas who attend a quarterly meeting for one hour as an opportunity to flag any risks which may need consideration at a corporate level. The facilitation of the register is commissioned by the Council from Internal Audit, who effectively provide the administrative support and co-ordinate the maintenance of the registers in the absence of any in house lead.

If RCC is to enforce the directorate level coverage for risk registers where gaps currently exists, in line with the current policy and framework, consideration should be given to how this is best resourced to ensure it is effective, delivers the intended benefits and is sustainable. In contract, if the corporate decision is taken that directorate risk registers are not a priority, the policy and framework should be updated to reflect this and detail how risk will be managed effectively to achieve the policy's objectives. **Recommendation 1** addresses this finding.

**Table 1: Risk register coverage and resourcing:**

Local Authority (LA)	Risk register categories (as per strategy)	Number of risk registers held and frequency of reporting	Resources	Estimated number of officer days allocated per annum
LA1 (RCC)	Strategic Directorate Fraud	4  Strategic register presented to committee six monthly. Fraud register reported annually. Directorate registers not reported to committee.	No defined risk management resource.  All registers maintained by Strategic Management Team (SMT) / Directorate Management Team (DMT)	35 days (no lead resource, all SMT/DMT officer time)
LA2	Corporate Business Operational	3  Corporate risk register presented to committee quarterly. Business/operational not reported to committee.	Business Planning Officer leads on risk management.  Engagement provided by members of Corporate Management Team (CMT) .	79 days (42 days from Business Planning Officer and 36 days of wider officer engagement)
LA3	Strategic Directorate	4  Strategic register presented to committee annually. Directorate not reported to committee.	Corporate Services Manager leads of risk management.  Engagement provided by Senior Leadership Team (SLT) / Service Managers	24 days (10 days from Corporate Services Manager and 14 days of wider management engagement)
LA4	Strategic Service Fraud	3  Strategic register presented to committee six monthly. Service registers not reported to committee.	Governance and Risk Officer leads on risk management.  Engagement provided via annual meetings with members of CMT / Heads of Service.	70 days (primarily Governance and Risk Officer, with annual meetings with risk owners)
LA5	Corporate	1  Corporate register presented to committee six monthly.	No defined risk management resource.  Registers maintained through facilitation by Internal Audit / Corporate Risk Group	20 days including both internal audit days and officer time

As above, it is noted that RCC is in the minority of councils in maintaining a dedicated fraud risk register. This is considered good practice and provides assurances over the Council’s awareness of fraud risks and actions taken to prevent and detect these. This register was subject to audit coverage in 2020/21 and it is acknowledged that the document is due for review/updating, but remains a valuable source of assurance over the active management of fraud risks. Furthermore, it is evident that the Council conducts risk assessments in relation to specific fraud risks (such as those associated with the payment of Covid-19 business grants) and such assessments add value to the development of key control processes.

Sample testing of 10 risks selected from the strategic and directorate risk registers, and two project risk logs, confirmed that all had been assigned to a risk owner and analysed in terms of likelihood and impact. In addition, a risk response strategy had been detailed, and testing confirmed that a sample of controls had been actioned accordingly.

The inherent and residual risk scores had been detailed within the strategic and directorate risk registers, it is however noted, that the residual risk score is not currently detailed within the project risk logs. As such, it is difficult to determine the level of risk which remains, after management responses have been developed and

implemented. It is recognised that the project risk log has been further developed in order to capture such information – this risk log should be utilised for all projects going forward.

It was noted in sample testing of directorate level risks that in 40% of the cases risks had not been subject to a recent review (approx. two years), or a review date had not been detailed,. This, again, relates back to the findings above regarding directorate risk coverage and ensuring this process delivers upon the intended benefits.

The Council's Contract Procedure Rules require all contracts over £50k in value to be subject to a risk assessment within the relevant directorate contract register. This provides a high level risk register entry for each of those contracts, primarily in relation to the risk of contractor failure and the mitigation in place to manage this risk. Whilst this is reasonably high level, it provides some assurance that contracts have been subject to risk assessment and the corporate risk of supplier failure has been scored in each case. A review of the entries for Place, Resources and People confirmed that this section of the contract registers had been consistently completed (with one exception noted) for contracts exceeding £50k, where they had been added to the Contracts Register. A separate audit on Contract Management has tested a sample of contracts further in relation to this control with a 100% compliance rate noted.

Based upon these findings, the assurance rating for the design of controls to mitigate this risk is **Satisfactory Assurance**. The assurance rating for compliance with these controls is **Good Assurance**.

### **Risk 3 – Lack of / no assurance that risk management is effective.**

It is understood that the three lines of defence model is applied within the Council as follows:

- First line – Internal control activities undertaken by front line / operational staff, such as checking an invoice prior to payment;
- Second line - Management oversight functions, such as budget monitoring, Key Performance Indicator (KPI) monitoring and audits; and
- Third line – Independent assurance, such as Internal Audit, External Audit and regulators, such as Ofsted.

The Council's draft Annual Governance Statement (AGS) confirms that established structures and processes for identifying, assessing and managing risk remained consistent during 2020/21. The strategic risk register had been subject to a thorough review in 2020, followed by a further review by the Audit and Risk Committee in February 2021. In addition, all Internal Audit reviews completed during 2020/21 had provided an opinion of at least satisfactory assurance, in relation to the control environment, and compliance with controls.

The draft AGS had been presented to Members on 20<sup>th</sup> July 2021, and it had been resolved the AGS fairly represents the governance framework in place at the Council.

The Council's risk management policy and framework confirms that the SMT are responsible for ensuring that reports to support strategic and / or policy decisions include a risk assessment. It is understood that such information is now captured within various sections of the relevant reports in order to provide assurance that the full impact of the decision-making process has been, and will be clearly understood by all parties.

Internal Audit review confirmed that all relevant reports which had been presented to Cabinet over the last 12 months included matters in relation to the consultation process, alternative options, legal and governance considerations, and the relevant implications - examples of which include climate change; community safety; data protection; equalities; financial; health and wellbeing; organisational (environmental; human resource; and procurement); and social value.

SMT are also responsible for reporting their directorate risks on a regular basis. As detailed, a directorate risk register does not currently exist in relation to Adult Services or Places, and sample testing confirmed that risks had

not been subject to a recent review, or a review date had not been detailed, in 40% of the relevant cases. **Recommendation one** addresses these findings.

The Audit and Risk Committee are responsible for reviewing the strategic risk register and the adequacy of associated risk management arrangements. Internal Audit review confirmed that the strategic risk register had been presented to Members during February and July 2021, with only one residual red RAG rated risk detailed on both occasions. It is noted that a verbal update in relation to the risk register had been provided to Members on 10<sup>th</sup> November 2020, following which, the Finance team had been thanked by Members, for their continued hard work.

Based upon these findings, the assurance rating for the design of controls to mitigate this risk is **Satisfactory Assurance**. The assurance rating for compliance with these controls is **Good Assurance**.

### **3. Action plan**

The following action plan includes two recommendations to address the findings identified by the audit. If accepted and implemented, these should positively improve the control environment and aid the Council in effectively managing its risks.

### **4. Limitations to the scope of the audit**

This is an assurance piece of work and an opinion is provided on the effectiveness of arrangements for managing only the risks specified in the Audit Planning Record (APR). The Auditor's work does not provide any guarantee against material errors, loss or fraud. It does not provide absolute assurance that material error, loss or fraud does not exist.

## ACTION PLAN

Rec No.	ISSUE	RECOMMENDATION	Management Comments	Priority	Officer Responsible	Due date
1.	<p>The current risk register coverage is not fully aligned with the approved policy and framework, in that gaps exist in the directorate level risk registers (Adults and Place). There are also some areas where existing registers are not subject to regular review and the level of detail is not consistent with the policy guidelines.</p> <p>There is no allocated resource to facilitate/co-ordinate risk management activity and the gaps in the current framework, and lack of recent updates, appear to reflect this.</p>	<p>The Council should align its control framework with that set out in the policy, and in doing so identify how best to resource this work to ensure it is effective and value adding.</p> <p>Should a decision be taken to amend the coverage, this must be reflected in the risk policy. Alternative mechanisms for seeking insight from service areas on how they are managing risk would need to be considered – such as risk management groups / specific risk sessions.</p>		<p>Medium</p> <p style="text-align: center;">●</p>	Strategic Director of Resources	

## GLOSSARY

### The Auditor's Opinion

The Auditor's Opinion for the assignment is based on the fieldwork carried out to evaluate the design of the controls upon which management rely and to establish the extent to which controls are being complied with. The tables below explain what the opinions mean.

Compliance Assurances			
Level		Control environment assurance	Compliance assurance
<b>Substantial</b>	●	There are minimal control weaknesses that present very low risk to the control environment.	The control environment has substantially operated as intended although some minor errors have been detected.
<b>Good</b>	●	There are minor control weaknesses that present low risk to the control environment.	The control environment has largely operated as intended although some errors have been detected.
<b>Satisfactory</b>	●	There are some control weaknesses that present a medium risk to the control environment.	The control environment has mainly operated as intended although errors have been detected.
<b>Limited</b>	●	There are significant control weaknesses that present a high risk to the control environment.	The control environment has not operated as intended. Significant errors have been detected.
<b>No</b>	●	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.	The control environment has fundamentally broken down and is open to significant error or abuse.

Organisational Impact		
Level		Definition
<b>Major</b>	●	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
<b>Moderate</b>	●	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
<b>Minor</b>	●	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

### Category of Recommendations

The Auditor prioritises recommendations to give management an indication of their importance and how urgent it is that they be implemented. By implementing recommendations made managers can mitigate risks to the achievement of service objectives for the area(s) covered by the assignment.

Priority		Impact & Timescale
<b>High</b>	●	Action is imperative to ensure that the objectives for the area under review are met.
<b>Medium</b>	●	Requires actions to avoid exposure to significant risks in achieving objectives for the area.
<b>Low</b>	●	Action recommended to enhance control or improve operational efficiency.